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**STATEMENT OF CASE AND STATEMENT OF POSITION
REGARDING PROPOSED RATE INCREASES**

The Association of American Publishers, Inc. ("AAP"), hereby submits its initial brief on the Request of the United States Postal Service for Postal Rate and Fee Changes in R2000-1.

AAP is the principal representative of the book publishing industry in the United States. It has over 300 members which encompass large and small publishing houses, as well as university and other non-profit publishers. These members make particular use of the Standard Mail (B) Bound Printed Matter ("BPM") subclass.

The Postal Service has requested an average rate increase for BPM of 18.1%. This requested increase is, by admission of the Postal Service, the highest for any subclass in this case. USPS-T32 at 43. In conjunction with this dramatic increase, the Postal Service is proposing to introduce a new rate design for BPM mail which would include three levels of drop-ship discounts. Under this proposed new rate design for the BPM subclass, the Basic Presort rates for BPM mailers who cannot take advantage of the discounts will increase by as much as 25.9%. Thus, although the drop-ship discounts may mitigate, to some extent, the increases proposed by the Postal Service, AAP members who cannot use the discounts will face unprecedented increases in BPM rates. Further, AAP members who are able to utilize the drop-ship discounts will only be able to drop-ship to Destination Bulk Mail Centers ("DBMC") and not to Destination Sectional Center Facilities ("DSCF") and Destination Delivery Units ("DDU"). Under the Postal Service proposal, BPM Mail dropped at the DBMC is subject to a significantly lower passthrough of costs savings and lower discounts than BPM mail deposited at the DSCF or DDU.

In short, AAP members are facing an unprecedented rate increase and a radical restructuring of the BPM subclass. The Postal Service has acknowledged the severity of the rate increase it proposes and concedes that implementation of the proposed rates for BPM is likely to result in rate shock for some mailers. Tr. 13/5284, 5319-5322. AAP submits that the burden is upon the Postal Service to justify the requested rate increase and the implementation of the new rate design for BPM. Given the dramatic nature of the rate proposals for BPM in this case, the burden upon the Postal Service is particularly high. Significant flaws in the Postal Service's proposal for BPM – including a fundamental misunderstanding of the current composition of the subclass – show that the Postal Service has not met its burden.

AAP's position on the proposals for BPM is summarized as follows:

- (1) BPM is entitled to full criterion 8 consideration based on clear evidence that the majority of the mail matter sent as BPM is now books. Full criterion 8 consideration justifies a significantly lower cost coverage for BPM than that proposed by the Postal Service.
- (2) There are serious infirmities relating to the manner in which the Postal Service has attributed and allocated costs for BPM. As a result of these infirmities, the costs attributed to BPM by the Postal Service are overstated.
- (3) The proposed drop-ship discounts are ill-conceived, discriminatory to mailers who drop-ship at the DBMC and are based on a flawed cost-study. Due to the uncertainties regarding the cost study and the actual use of the discounts by BPM mailers, only DBMC discounts should be implemented at this time – much in the same way that drop-ship discounts were implemented for the Parcel Post subclass. Further, the passthrough for DBMC cost savings must be increased dramatically.

(4) The Commission should not rely upon the FY 99 cost data in assessing the Postal Service's proposed rate increase for BPM. The parties have not been accorded a sufficient amount of time in this case to test the accuracy of the FY 99 data, and use of the data would violate AAP's due process rights. Nonetheless, AAP submits that if such data is relied upon by the Commission, the FY 99 data should not result in higher rates.

ARGUMENT

I. The Cost Coverage for BPM Should be 105%

As explained in previous decisions, the Commission has employed a simple and well-understood procedure for assigning institutional costs to the subclasses of mail in postal rate cases. *The Commission uses the ratemaking factors set forth in section 3622(b) of the Postal Reorganization Act to develop a cost coverage for each subclass of mail.* This cost coverage measures the contributions to institutional costs made by the subclass, and is expressed as a percentage of the attributable costs of that subclass. PRC Op. R97-1 at 229; PRC Op. R87-1 at 369. While the Commission relies on its precedents as a starting point, it evaluates new evidence presented in each rate case to determine whether changes from its past decisions on allocation of institutional costs would be appropriate. PRC Op. R97-1 at 229.

The Postal Service contends that its proposed cost coverage of 118% for BPM substantially mitigates the impact of cost increases for the subclass since the last rate case. USPS-T-32 at 43. In regard to this proposed cost coverage, Witness Mayes states in her testimony that a "substantial" number of books have been mailed as BPM over the years and that the Postal Service is proposing to give the subclass "some ECSI consideration" in accordance with past Commission decisions. *Id.* at 45.

The Commission's previous decisions on cost coverage are illuminating, but not in the manner believed by the Postal Service. In R87-1, the Commission for the first time applied "criterion 8" – the educational, cultural, scientific and informational ("ECSI") value of the mail – to BPM because it recognized that some books were in fact being mailed in the subclass. Accordingly, the Commission lowered the cost coverage from 161%, as proposed by the Postal Service, to 149%. PRC Op. R87-1 at ¶ 5965. In the next rate case, the Postal Service proposed a cost coverage of 151% for BPM, but the Commission, recognizing the continued migration of books into the subclass, lowered the cost coverage to 146%. PRC Op. R90-1 at ¶ 6519. The Commission also recommended a classification change which made books eligible to be mailed as BPM without the necessity of including a small amount of advertising. *Id.* at ¶ 6509. It did so because the Commission believed that "the intent of the Act is to encourage widespread dissemination of ideas by considering the postage paid by senders of books." *Id.* Nonetheless, full criterion 8 – ECSI consideration was not accorded to BPM, in contrast to the Special Rate Fourth (now Special Standard) subclass, because the subclass did not principally consist of books. *Id.* at ¶ 6519.

BPM volumes continued thereafter to grow, likely driven by the continued migration of books into the subclass. USPS-T-6 at 167-68. In R94-1, the Postal Service proposed and the Commission adopted another reduction in the cost coverage of BPM to 132%. Notably, the Commission rejected the proposal of Office of Consumer Advocate ("OCA") Witness Willette to set the cost coverage for BPM at 140%. PRC Op. R94-1 at ¶ 5387. In R97-1, the Commission recommended a cost coverage for BPM of 136%. The Mail Order Association of America ("MOAA") argued for a more robust application of criterion 8 on the grounds that the subclass consisted primarily of books. The Commission rejected MOAA's argument, but it did so

because MOAA had cited “no evidence in support of the statement in its brief that ‘BPM now consists primarily of books.’” PRC Op. R97-1 at ¶ 5722, n.106. The implication of the Commission’s position on this point was that full ECSI consideration *would* be appropriate if there were record evidence supporting the proposition that BPM did consist mostly of books.

Throughout these cases, the Commission has calibrated its application of criterion 8 to other subclasses based upon whether the subclass contains a majority of ECSI mail matter. Special Standard (formerly Special Rate Fourth) has consistently received cost coverages of 105-106%. This low cost coverage has been based upon the predominance of books and other ECSI mail matter in that subclass. *E.g.*, PRC Op. R97-1 at ¶ 5755. The Periodicals subclass has also received ECSI treatment, but the cost coverages recommended by the Commission have been lowered over the last two rate cases. In R94-1, the Commission recommended a cost coverage of 116.3% after giving “substantial weight” to the ECSI value of the mail matter in the subclass. PRC Op. R94-1 at ¶ 5164. The Commission, however, was not constrained by its precedents in the treatment of the cost coverage for Periodicals. In R97-1, the Postal Service proposed a change in the method of setting the pound rate for editorial matter and, in recognition of the *proposed rate increases for the subclass*, a cost coverage of 107%. Mailers raised substantial concerns that these proposals would have an adverse effect on the dissemination of editorial content through the mail, and the Commission agreed. It rejected the proposed change to the editorial pound rate, and it lowered the cost coverage for Periodicals to 101% based in substantial part on ECSI considerations and the impact on mailers of the proposed rate increases. PRC Op. R97-1 at ¶ 5817. Following the Commission’s lead, the Postal Service proposes a cost coverage for Periodicals in this case of 101%. USPS-T-32 at 32.

Commission decisions thus show that the cost coverages applicable to BPM and other subclasses with ECSI mail matter are not set in stone and can evolve as circumstances warrant. Key considerations are shifts in the type of mail matter sent through the subclass and the impact of rate increases upon mailers. These decisions also show that the cost coverage assigned to BPM has experienced a clear downward trend. Downward adjustments have been initiated by the Commission, however, not by the Postal Service.

This case is no different. Witness Mayes' direct testimony and her testimony under cross examination make it clear that the Postal Service's proposed cost coverages have been driven almost solely by cost coverages from previous cases rather than by the application of the relevant ratemaking factors to the facts and circumstances currently applicable. USPS-T-32 at 45; Tr. 11/4484 ("I did not intend in my testimony to shift ECSI value consideration, or change the application of . . . the criterion related to ECSI value beyond what the Commission has done in the past"). The rationales of the Commission's cost coverage decisions, as opposed to a rigid application of the results in previous cases, and the record evidence in this proceeding, point to a lowering of the cost coverage for BPM to the levels applicable to Special Standard and Periodicals.

The crucial point in this case is that the latest data available show that books now do predominate the BPM subclass. In response to AAP's discovery requests and cross examination, the Postal Service has revealed that the 1998 Household Diary Study shows that 63.7% of the subclass now consists of books. The same data shows that only 29.4% of the subclass is now made up of catalogs. Tr. 9/35985-96, Tr. 11/4466. The proportion of BPM consisting of books has grown to the point that they now make up most of the subclass. Thus, the evidentiary gap which precluded the Commission from applying ECSI consideration more strongly to BPM in

R97-1 has now been filled. BPM is entitled to more than “some consideration” of criterion 8. As Witness Mayes acknowledged during cross examination, the higher the percentage of mail matter with ECSI value, the greater the application should be of criterion 8. Tr. 11/4468. The evolutionary process begun in R87-1 has now reached the point where a full application of criterion 8 to the subclass is warranted. Accordingly, BPM should receive a much lower cost coverage than that proposed by the Postal Service.

Criterion 7 of section 3622(b) of the Act also points to this result. That is the factor which requires “simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services.” 39 U.S.C. §3622(b)(7). In short, consistency of treatment is another important factor in ratemaking. As Witness Mayes conceded, if the proportion or balance of ECSI and non-ECSI content is about the same in different subclasses, then the subclasses should get the same degree of criterion 8 consideration. Tr. 11/4468.

The proportion of ECSI mail matter in Special Standard and Periodicals confirms that BPM should receive full ECSI consideration. Special Standard, of course, is the historical book subclass, and has received consistently low cost coverages. The steady migration of books into BPM, and the Household Diary Study showing that the majority of the subclass now consists of books, demonstrate that BPM has now too become a book subclass, and should receive a cost coverage similar to Special Standard. Likewise, the composition of the Periodicals subclass justifies full criterion 8 application to BPM. The Periodicals subclass contains a not insubstantial amount of non-ECSI matter. In fact, the editorial and advertising proportions of Periodicals are about equal. Tr. 11/4462-63. Since the ECSI content of BPM now exceeds that of Periodicals, BPM like Periodicals, should also receive a strong application of criterion 8. Only a legally unsupportable and invidious effort to distinguish the value of books from that of Periodicals

could support lower ECSI consideration to BPM. Tr. 11/4470-71, 4478-79. As even Witness Mayes indicated in response to AAP's discovery requests, an examination of Periodicals is "instructive" in determining that the BPM cost coverage should be significantly lower. Tr. 11/4189.

It is clear that the Postal Service is imprisoned rather than enlightened by Commission precedent. It has an outdated view of the subclass. Witness Mayes relied upon stale evidence, the 1996 Revenues, Pieces and Weight (RPW) data, rather than the more recent Household Diary Study showing that a majority of BPM consists of books, in presenting the Postal Service's rate proposals. And, Witness Tolley did not even refer to books in his description of the subclass in connection with his presentation of volume estimates. *See* USPS-T-6. Instead, he referred to it as a catalog subclass. Confronted by the logical and factual deficiencies in its approach, the Postal Service ultimately has no basis for its proposed cost coverage for BPM other than "what the Commission has done in the past." Tr. 11/4484.

What the Commission has done in the past, however, is to set cost coverages responsive to subclass composition and the impact of rate increases. As regards the application of criterion 8, this approach is well-justified by the Act. Criterion 8 is not just a ratemaking factor entitled to "some consideration," but an expression of an important national policy by the Congress. As eloquently explained in the testimony of AAP Witnesses Schroeder and Wells, the intent of the Congress to promote the distribution of books would be thwarted by a failure fully to apply criterion 8 to the subclass in this case. Tr. 28/13367-75; Tr. 28/13379-81. Criterion 8 is based upon the Congress' recognition of the strong public benefits derived from reading and literacy and the need to ensure that postal rates promote rather than deter the realization of these benefits. Dissemination of books via the mail is critical to the fulfillment of that policy. Tr. 28/13368-69.

Significantly, neither the Postal Service nor any other party sought to rebut or even cross-examine Witnesses Schroeder and Wells on this score.

Other ratemaking factors also support the conclusion that the cost coverage for BPM should be lowered to the levels applicable to Special Standard and Periodicals. Criterion 2 requires consideration of the value of the mail service provided each class to both the sender and the recipient. 39 U.S.C. §3622(b)(2). This is usually measured through the own-price elasticity of demand applicable to the subclass. USPS-T-32 at 5. The lower the own-price elasticity, the higher the value of service. The own-price elasticity for BPM is -0.392 . This value is lower than the own-price elasticity of First Class Cards-Stamped, First Class Cards-Private, Priority Mail, Express Mail, Standard A Regular Mail, Standard ECR Mail and Parcel Post. Tr. 11/4178. Yet, the rate increase proposed for BPM is higher than the rate increase proposed for any of those subclasses. Criterion 4 – the effect of rate increases – also supports lowering the cost coverage for BPM. The Postal Service has acknowledged that this consideration supports in part the almost negligible cost coverage applicable to Periodicals. Tr. 11/4479. Nonetheless, the rate increase proposed for the BPM is higher. Indeed, it is the highest for any subclass proposed by the Postal Service. The Postal Service, however, is unable to explain the purported cost increases that ostensibly led to this result, USPS-T-32 at 44, and it is similarly bereft of an explanation as to why criterion 4 did not lead, as in the case of Periodicals, to a much lower cost coverage. Tr. 11/4480.

There is no doubt that the Postal Service's proposed rate increases for BPM would result in rate shock. Tr. 28/13368. Book publishers and other organizations seeking to promote reading by children and the general public will be severely affected by such proposed increases. *Id.*; Tr. 28/13380-81. Just as the rate increases for Periodicals have been mitigated by the

application of the lowest possible cost coverage, so too should the effect of the proposed rate increases for BPM be mitigated by the application of a low cost coverage. As proposed by AAP Witnesses Siwek and Schroeder, the Commission should employ a cost coverage of 105% for BPM.

II. The Cost Increases for BPM Are Not Supported by the Record

Postal Service witness Kiefer has stated that that the magnitude of the increase proposed for BPM rates is due, in part, to an increase in unit costs for BPM as a whole by more than 40% since the last rate case. Tr. 13/5300. Witness Kiefer further states that “a large increase in rates is needed to cover this cost increase.” *Id.* The burden of producing credible evidence justifying such an increase lies solely upon the Postal Service. *See, e.g.*, 5 U.S.C. 556(d); 39 U.S.C. 3624(a). No other party has the resources or the ability to produce reliable cost data for BPM. Thus, if the Postal Service does not meet its burden of showing that the cost data underlying the proposed rate increase are accurate the Commission must reject the proposed rate increase.

As discussed at length by AAP Witness Siwek, the testimony and interrogatory responses of the Postal Service’s own costing witnesses provide ample reason to doubt that the true volume variable costs of BPM are increasing at the rate suggested by the Postal Service. Tr. 30/14568-75. Fundamental inconsistencies permeate the Postal Service’s mail processing cost presentation.

A. The Postal Service Overstates the Actual Level of BPM Volume Variable

With respect to cost attribution in mail processing, the Postal Service has developed and sponsored detailed econometric estimates of the volume-variability of ten MODS cost pools. The volume variability percentages for these ten cost pools were all below 100% with some as low as 52.2%. *See* USPS-T-17, Table 1 at page 24. With respect to non-MODS cost pools and BMC

cost pools, however, the Postal Service did not produce econometric estimates of volume variability. The Postal Service chose instead to rely on IOCS-based code classifications. Significantly, the use of IOCS-based code classifications results in volume variability estimates for these cost pools that the Postal Service's own costing witnesses categorically dispute.

For example, Postal Service Witness Bozzo testified that his "explanation of the Postal Service's decision to use volume-variability factors based on the traditional IOCS activity code classification should not be construed as an endorsement of the traditional method on its economic merits." USPS-T-15 at 133. Based on the testimony of USPS Witness Degen, Witness Bozzo also postulated a "potential disconnection between the IOCS method of parsing tallies into fixed and variable categories and the real cost drivers for support operations which are work hours and/or workload in the supported operations." *Id.* at 134.

The Postal Service's self-contradictory approach to cost attribution is most apparent in connection with mail processing costs at BMCs. Mail processing costs reported in Cost Segment 3 (Clerks and Mailhandler Costs) account for approximately one-third of total volume variable costs for BPM. Tr. 30/14569. AAP Witness Siwek found that within this category, mail processing costs at Bulk Mail Centers ("BMC") are the most significant mail processing costs, accounting for nearly 53% of the total mail processing costs that the Postal Service distributed to BPM in BY 1998. *Id.* Nevertheless, the Postal Service's own costing witness, Dr. Bozzo, directly criticized the estimates of the volume variability of mail processing costs at BMCs that the Postal Service has proposed in this case. Witness Bozzo testified that the testimony of Postal Service Witness Bradley in R97-1 "represent[s] a much more accurate method for estimating the volume variable costs in BMC operations than the IOCS-based method." USPS-T-15 at 135. Witness Bozzo also stated that the PIRS workload data used in Dr. Bradley's analysis "would

have to be so noisy as to be useless in order for the IOCS-based method not to significantly overstate the BMC volume variable costs relative to Dr. Bradley's method." *Id.* at 136. Witness Siwek calculated that if the Postal Service had actually used the "much more accurate" estimates of BMC volume variability factors proposed by Witness Bradley, BMC costs for BPM would have declined by 30.9% in BY 1998. Tr. 30/14608.

The cost attribution method proposed by the Postal Service is not only inaccurate, it is also arbitrary and subjective. As explained by Postal Service Witness Van-Ty-Smith, the Postal Service "separates non-overhead tally activities into those that are non-volume variable and those that are 100 percent volume variable." USPS-T-17 at 11. Cost associated with "overhead" activities are then "considered volume variable to the same degree as non-overhead activities." *Id.* at 12. In other words, without quantification of any sort, the Postal Service simply assumes that "overhead" activities including breaks/personal needs, clocking in/out, and certain empty equipment related work, should be considered volume variable to the same degree as non-overhead activities. *Id.*; Tr. 30/14572.

Witness Siwek showed that the Postal Service's overhead assumption to be "sweeping in its breadth." Tr. 30/14573. Mr. Siwek explained that one could equally justify the unsupported assumption that these overhead costs have no relationship to volume whatsoever. *Id.* He concluded that the Postal Service's treatment of overhead costs is not a quantification of volume variability, but "an arbitrary example of cost allocation." *Id.* Based on an interrogatory response from Dr. Bozzo, Witness Siwek calculated that the mail processing "overhead" costs that were arbitrarily categorized by the USPS as volume variable costs comprised more than 29% of the total MODS, non-MODS and BMC costs claimed for BPM in this case. *Id.* at 14610. For the 2001 test year, Mr. Siwek estimated that by its arbitrary attribution of "overhead" costs, the

Postal Service had overstated BPM costs in the amount of \$47.5 million. *Id.* at 14575. He calculated that with \$47.5 million less BPM costs in TYBR in 2001, the Postal Service cost coverage for BPM at current rates would be 110.5 percent. *Id.* Accordingly, if the Commission were to correct only this single aspect of the Postal Service's cost attribution claim, there would be no need for any rate increase in BPM in this case.

B. The Distribution of Allied Costs to BPM is Overstated

In postal ratemaking, volume-variability determines the amount of a particular postal cost (such as BMC Platform) that must be attributed to the subclasses. Subsequently, the attributed cost must be "distributed" to each of the postal subclasses that make use of that cost. *See* Tr. 38/17321. As noted by Postal Service Witness Degen, "[o]nce variabilities have been determined, calculating volume-variable costs by subclass is a zero-sum game. All volume variable costs must be distributed to the subclasses that cause them." *Id.* Yet, for certain "allied operations" in mail processing, the Postal Service's recommended methods of cost distribution fundamentally abandon the basic idea of cost causation.

Allied operations in mail processing include platform operations and other activities that differ from direct manual and automated piece handling. In terms of IOCS tallies, allied operations include many "not-handling" tallies. *Id.* at 17325. According to Postal Service Witness Bozzo, however, the costs of allied operations are largely driven by piece volumes. Dr. Bozzo stated, for example, that the costs of allied operations at MODS offices are largely explained statistically by piece volumes at sorting operations. USPS-T-15 at 138. Thus, even though Witness Degen states that allied operations costs are not volume related, Witness Bozzo states that the Postal Service uses volume data to distribute allied operations costs.

Time Warner Witness Stralberg and Magazine Publishers of America ("MPA") Witness Glick address this issue in their direct testimony and provide further support for questioning the Postal Service's claimed cost distribution relative to BPM. *See* Tr. 24/11376-87; Tr. 24/11215-23. Witness Stralberg proposes an alternative distribution methodology for these costs that seeks to link allied workhours with the needs of the distribution operations of the Postal Service. Tr. 24/11376. This methodology uses sounder principles of cost causation than those employed by the Postal Service. MPA Witness Rita Cohen incorporates these and other changes into her estimates of TYAR costs by subclass. Tr. 24/11288. Ms. Cohen's proposed costs by subclass are shown in Table 3 of MPA-T-1. *Id.* at 11295. As shown in Table 3 of MPA-T-1, adoption of MPA's proposals would reduce the total TYAR attributable cost of BPM from \$479,204,000 to \$372,617,000, a reduction of 22.2%. *Id.*

In short, the Postal Service has not met its burden of showing that the costs of providing BPM service will increase at the rate predicted by the Postal Service in this case. Important cost pools that serve BPM are not 100% variable as even the Postal Service costing witnesses admit. Moreover, even if one were to accept the flawed cost attributions of the Postal Service, the Postal Service's proposed distribution of allied operations costs to the BPM subclass is vastly overstated. For these reasons, the Commission should find that the cost data upon which the Postal Service supports its requested increase for BPM are not reliable and that the Postal Service has not met its burden of showing that the extraordinary rate increases requested for BPM are justified.

III. The Proposed DSCF and DDU Drop-Ship Discounts for BPM Should Be Rejected

At the core of the Postal Service's rate proposals is its intention to eliminate the Local rate zone for the BPM subclass and to introduce drop-ship discounts at the DBMC, DSCF and

DDU levels. This proceeding is the first time such discounts have been considered for BPM. Although implementation of such discounts may be appropriate over time, AAP believes that infirmities in the underlying cost study, the discriminatory passthroughs of cost savings that support the discounts, and the revelation in this case that the majority of the BPM users are mailers of books warrants a delay in full implementation of the discounts. To the extent such discounts are adopted, AAP proposes that, consistent with the approach taken for the Parcel Post subclass, the discounts be phased in over time.

A. The BPM Characteristics Study is Flawed

The sole source of support for the proposed drop-ship discounts is the BPM Mail Characteristics Study provided in LR-I-109 (the “BPM study” or the “study”). The BPM study was the first ever conducted by the Postal Service regarding the entry points for BPM mail and was undertaken for the express purpose of determining whether to institute drop-ship discounts for the subclass. Tr. 8/3445-47. The study was conducted by Christensen Associates with minimal oversight by the Postal Service. Tr. 8/3442. For example, during the course of his cross-examination, the primary Postal Service representative responsible for oversight of the project by Christensen Associates, Charles Crum, stated that he spent *only an hour* reviewing the raw data that form the basis of the study. Tr. 8/3470.

In assessing the appropriateness of cost studies for purposes of establishing drop-ship discounts, the Commission has required that the Postal Service provide a cost study outlining the need for and viability of such discounts. *See, e.g.*, PRC Op. R87-1 at ¶ 5947. The Commission, however, has closely examined such studies to determine if they actually provide support for the discounts, and more importantly, whether they were properly conducted and are otherwise devoid of significant flaws. *See* PRC Op. R90-1 at ¶ 6449. Thus, there must not only be a study

that supports the discounts, but the study must also be acceptable to the Commission. The study produced by the Postal Service to support the drop-ship discounts is flawed in several significant respects. It does not provide a sound basis upon which to institute the full range of drop-ship discounts for the BPM subclass proposed by the Postal Service. The flaws in the study make it clear that a cautious approach to instituting new discounts is warranted and that only a DBMC drop-ship discount should be recommended at this time.

1. The Volume Data Produced By the Study Are Unreliable

Table 1 of Attachment H to Witness Crum's testimony is the mail processing version of a table that tracks the various entry locations for BPM mail. USPS-T-27, Attachment H, Table 1; Tr. 8/3450. Attachment H to Witness Crum's study essentially constitutes a summary of the BPM study results. Tr. 8/3450. According to Witness Crum, Attachment H constitutes the major output of the BPM Study. *Id.* Postal Service Witness Kiefer relied upon Attachment H to support his overall rate calculations for BPM. Tr. 13/5326; *see also* Tr. 30/14579, 14581-82.

During the course of cross-examination, Postal Service Witness Crum conceded that there had been a serious miscommunication between him and Christensen Associates which resulted in a misstatement of the number of BPM mail pieces dropped at various entry points. Tr. 8/3453-54. This resulted in substantial revisions to Attachment H three months after the Postal Service filed its case and more than eight months after completion of the BPM study. Tr. 8/3449. These changes resulted in a 14 million piece decrease in DBMC pieces -- a reduction in drop-ship volume that Witness Crum found to be significant. Tr. 8/3463. Although Witness Crum stated that he did not believe that his changes to Attachment H would have a material effect on rates, Witness Kiefer subsequently altered his workpapers to account for the post-filing volume changes made by Witness Crum. Tr. 46/21379; LR-I-325. As shown by AAP Witness Siwek in

his testimony, Witness Kiefer made arbitrary adjustments to his workpapers solely for the purpose of offsetting these volume adjustments. Tr. 30/14582. In short, it appears that these errors occurred because the Postal Service failed to exercise proper oversight of Christensen Associates in its handling of the study and, as a result, that the volume figures for BPM deposited at various drop-ship locations were improperly tabulated. These errors were conceded by the Postal Service at the mid-point of the rate case and only after questioning by AAP.

Since the BPM volume data found in the study are the cornerstone of the Postal Service's proposal to institute drop-ship discounts and affect Witness Kiefer's calculations of rates for all BPM mail (whether or not subject to a discount), the Postal Service should have taken the time to re-tabulate all the BPM volume data compiled by Christensen Associates. Instead, the Postal Service continued to rely upon the study and sought to arbitrarily adjust its rate calculations to account for the volume errors.

2. The Study Has Methodological Errors

Witness Siwek found that the BPM Mail Characteristics Study is "fraught with a set of statistical oddities and infirmities that call into question many of its basic results." Tr. 30/14578. According to Siwek, these statistical infirmities included the introduction of measurement error in the strata weights used in the sample, a systematic bias in the inflation of sample pieces from a 1999 sample to 1998 national totals, and a biased variance estimate produced through an unsound method of "bootstrapping" sample results. *Id.* at 14578-79. He concluded that "the sampling technique used by Christensen Associates (in the BPM Mail Characteristics Study) results in biased mean estimates and unreliable standard errors." *Id.* at 14578. These criticisms of the BPM study are significant and further undermine the adequacy of the BPM study.

3. Witness Degen's Defense of the Study
Does Not Cure the Study's Obvious Deficiencies

Postal Service Rebuttal Witness Carl Degen found that Mr. Siwek's criticisms "...may very well be technically correct...." Tr. 38/17340. Witness Degen also admitted that "[b]ias does exist when strata populations are measured with error." *Id.* at 17341. In addition, Witness Degen testified that "[s]ince actual revenue per piece for each office in stratum 4 is unknown, the resulting inflation factors will be measured with error." *Id.* at 17344-45. Furthermore, Mr. Degen testified that "[a]s witness Siwek asserts, the LR-I-109 estimates cannot be unbiased estimates of either year because the sample design and data collection are based on different periods." *Id.* at 17346. Thus, the Postal Service's own witness has conceded that the BPM Study is riddled with statistical flaws and biases. Incredibly, Witness Degen attempts to downplay the obvious statistical problems with the study by stating that "[i]n the real world, the perfect data seldom exist and small compromises must be made." *Id.* at 17340.

Witness Degen also severely mischaracterizes Mr. Siwek's testimony. For example, Witness Degen claims that Mr. Siwek's criticisms "imply" an abandoning of the efficiency advantages of stratified sampling itself. In fact, at no place in Witness Siwek's testimony does he assert that the study should not have been conducted through stratified sampling. In fact, Witness Siwek's testimony identified potential sources of bias and sought to improve the estimation procedures used by the Postal Service in accordance with recognition of those biases. Tr. 30/14575-83. Many such improvements are possible. For example, the Postal Service could have improved the estimate of the stratum 4 piece count by taking into account the sample distribution of mailing characteristics (such as destination entry, zone, etc.) in strata 3 and by adjusting its revenue per piece estimate in accordance with those characteristics. This change

would likely improve the reliability of the stratum 4 data without abandoning sample stratification as claimed by Witness Degen.

Witness Degen also claims that the admitted bias that results from Christensen Associates' measurement error in stratum 4 is insignificant because "there are no systematic differences between stratum 3 offices and stratum 4 offices." Tr. 38/17345. Yet, he cites no empirical basis whatsoever for his claim nor is any evidence provided in his testimony that would lend support for the statement. Indeed, Witness Degen also states that "[f]or these (stratum 4 offices) the only information available about BPM is office specific permit imprint BPM revenue from the NCTB." *Id.* at 17344. Moreover, even if one assumes, *arguendo*, that strata 3 and 4 are comprised of "relatively homogeneous offices," as asserted by Witness Degen (*Id.* at 17345), Witness Degen cannot account for the fact that the stratum 4 piece count was actually obtained by dividing stratum 4 revenues by the combined revenue-per-piece ratio for strata 2 and 3.¹

Witness Degen also argues that since strata 4 offices accepted only a small percentage of presorted BPM in 1998, any bias that results from estimating strata 4 volume must be insignificant. *Id.* at 17345. Table 3 of his testimony is used to support this claim. *Id.* at 17351. Although the resulting changes in the distribution of mailings by entry profile seem small in percentage terms, Witness Degen fails to explain that changes in the estimated volume for strata

¹ See LR-I-109 at Appendix D, Section III.B, step 2 and the "TB adjustments.xls" spreadsheet found in the electronic version of LR-I-109. These references show that stratum 2 *and* stratum 3 revenues were employed to derive the revenue per piece values that were used to estimate piece volumes in stratum 4. According to Mr. Degen's Table 2, these stratum 2 offices include the 21st through 150th largest BPM offices in the Postal Service. Given the difference in size between these large offices in stratum 2 and the much smaller offices in stratum 4, one cannot simply take for granted that their mailing characteristics are homogeneous.

4 disproportionately affect DDU mail. In fact, if the revenue-per-piece in stratum 4 is 25% larger than the same ratio in stratum 3, the estimated piece count for DDU is 4.2% larger than the base scenario, and the estimated piece count for "DDU-Destinating BMC Service Area" is 9.1% smaller than the base scenario. These deviations are not small as they are concentrated in a few specific entry profiles. Thus, Table 3 actually shows that measurement errors in strata 4 introduce a systematic bias in the Postal Service's estimate of DDU mail.

Finally, Witness Degen defends Christensen Associates' use of "collapsing strata" as a means of addressing the problem that the survey considers only a single BPM mailing in stratum 3. *Id.* at 17347. As Mr. Degen himself admits, "[b]ecause there is only one observation, the bootstrap estimate of stratum 3's variance is zero." *Id.* at 17347. Computing standard errors when there are one or more strata with only one observation may be feasible, as long as the estimation follows the proper statistical techniques. This is not the case for the standard errors estimated in the BPM Study.

When some strata have only one observation, "an estimate may be attempted by grouping the strata in pairs thought beforehand to have roughly equal true stratum totals. The allocation into pairs should be made before seeing the sample results." William G. Cochran, *Sampling Techniques*, 3rd Edition, Wiley 1977, at page 138. This condition was plainly not followed when Christensen Associates collapsed stratum 2 and 3. Bootstrapping is a technique in which the resampling should follow the same sampling procedure used to draw the original sample. The BPM Mail Characteristics Survey merged stratum 2's sample with the one observation in stratum 3, and took repeated draws from the combined sample. As a result, the probability of drawing the one observation in stratum 3 was set equal to any other observation in the combined sample. Thus, the observations from this new stratum 2-3 were resampled with a probability different

from that applied in the original survey, and this practice was clearly inconsistent with the bootstrap method.

B. The Proposed DBMC Passthroughs Proposed Are Unacceptably Low

Apart from the inadequacies of the Postal Service's underlying cost study, the Postal Service proposes to treat users of the DBMC discount unfairly. In R97-1, the Commission considered the appropriateness of a low passthrough of cost savings for the DBMC discount for Parcel Post. Rejecting the low passthrough proposed by an intervenor to the proceeding, the Commission stated that "[a]lthough limited passthroughs may be in order in specific cases, the Commission rejects a blanket recommendation of low passthroughs as a matter of guidance." PRC Op. R97-1 at ¶ 5653.

The Postal Service and the MOAA are recommending that BPM mail sent from the DBMC be accorded a passthrough of *only 16.1%*. Tr. 13/5286; Tr. 13/17448-49. In contrast, the Postal Service is proposing passthroughs of 47% and 45%, respectively, for DSCF and DDU mail. The Postal Service is also projecting that at least two-thirds of the mail that will utilize the drop-ship discounts for BPM will originate at the DBMCs. USPS-T-27, Attachment H, Table 1. *See also* Tr. 39/17486.

Witness Siwek has shown that the Postal Service's proposed passthrough for BPM mail originating from the DBMC is unfair and discriminatory. Tr. 30/14584. The vast majority of the mail that can utilize the BPM drop-ship discounts will be subject to an unusually low passthrough and will not receive the full economic benefit of the worksharing envisioned by introduction of the discount. The revelation in this case that the BPM subclass is primarily composed of books also underscores the unfairness of this proposal as book mailers are less likely to drop-ship mail directly to the DSCF or DDU. *See e.g.*, Tr. 11/4466, Tr. 9/3595.

C. Drop-Ship Discounts for BPM Should Be Instituted Over Time

Recognizing the infirmities with the cost study that underlie the proposed drop-ship discounts, Witness Siwek proposes that drop-ship discounts for BPM mail be phased in over time, starting at the DBMC level. Tr. 30/14583. This approach would be similar to the manner in which discounts were introduced for the Parcel Post subclass. DBMC discounts for Parcel Post were first considered, but not adopted, in MC86-1. At that time, the Commission instead suggested that DBMC discounts for Parcel Post be phased in thorough experimentation. The Commission also stated that the Postal Service should “test how the discounts would affect the operations within postal facilities and in the marketplace before deciding whether to request a permanent classification.” PRC Op. MC86-1 at ¶ 519. Subsequently, the Commission again rejected implementation of DBMC discounts for Parcel Post in R87-1 because the record failed to show that the rates would recover attributable costs. PRC Op. R87-1 at ¶ 5948.

Ultimately, DBMC discounts were adopted for Parcel Post in R90-1. PRC Op. R90-1 at ¶ 6451; Tr. 13/5332. DSCF and DDU discounts were adopted in R97-1. PRC Op. R97-1 at ¶¶ 5685-96; Tr.13/5332. In the case of the Parcel Post subclass, the Commission recognized that the six years between introduction of the Parcel Post discount and the DSCF and DDU discounts provided “a considerable degree of experience” for assessing the introduction of the additional discounts. PRC Op. R97-1 at ¶ 5654. In contrast, the Postal Service is seeking to implement DBMC, DSCF and DDU discounts in the same proceeding and without any real opportunity to assess how the discounts will affect operations within postal facilities and, more importantly, the majority of the mailers who utilize the BPM subclass.

The Postal Service proposal to institute the discounts is also being made at the same time that the Postal Service is asserting that unprecedented cost increases for BPM justify higher

across-the-board rates for all BPM mail. *See* Tr. 13/5314-16. Witness Crum has stated that the discounts were planned prior to any knowledge that there would be significant increases in rates due to alleged cost increases. Tr. 8/3448. Nonetheless, once the Postal Service became aware of the cost increases, it proceeded to seek implementation of the discounts notwithstanding that the deaveraging of BPM rates resulting from introduction of the discounts exacerbated the effect of the already significant rate increase upon mailers who could not use the discounts. *See* Tr. 13/5316.

In view of these considerations, a phase-in of the discounts is only prudent. Additional experience needs to be gained prior to full introduction of the DSCF and DDU discounts. Witness Siwek's criticisms of the BPM study and the recognition that the majority of mail matter sent as BPM is no longer catalogs, but books, further support the prudence of delaying full implementation. Tr. 30/14575-86; *see also* Tr. 9/3595. Delayed implementation of the DSCF and DDU discounts would also mitigate, to some extent, the rate shock that will be experienced by mailers who cannot make use of the discounts as a result of deaveraging and provide additional time to assess whether BPM mailers can actually make use of a full range of discounts.

Witness Siwek's proposed discounts for BPM constitute a fundamentally more sound approach. He calls for the institution of the DBMC discount with a 33.9% passthrough. Tr. 30/14584-85. Mail drop-shipped at the DSCF and DDU would be eligible to receive a discount, but such discounts would not exceed that proposed for mail dropped the DBMC. *Id.* Although this would produce somewhat lower passthroughs for DSCF and DDU mail that took advantage of the DBMC discount, such considerations must be balanced against the need to mitigate rate shock for the many mailers who cannot use such discounts and to maintain

incentives for those mailers who can only make use of DBMC discounts. AAP firmly believes that the focus on any drop-ship discounts for the BPM subclass must first be directed towards the DBMC level – as the DBMC discount is likely to have the greatest impact upon BPM mailers. Over time, when the use and impact of the full-range of discounts is more fully understood, consideration might be given to implementation of discounts at the DDU and DSCF level.

IV. The Commission Should Not Rely Upon FY 1999 Data

Shortly after the start of this case, the Commission sought comment from the intervenors on the extent to which FY 1999 data should be incorporated into the Commission's analysis of the proposed rate and fee changes. *See* Notice of Inquiry No. 1. On the assumption that FY 99 cost data could be made available early in the proceeding, AAP and several other parties took the position that more recent data should be incorporated, if possible. AAP also urged a delay in the proceeding to permit the full integration of the data into the rate case. *See* AAP Comments in Response to Notice of Inquiry No. 1, February 23, 2000. Upon review of intervenor and Postal Service comments on the issue, the Commission did not reach any immediate decision on how such data would be incorporated into the case, but decided to allow full discovery on FY 99 data. Ruling No. R2000-1/4. The Commission also declined to extend the case beyond the 10-month statutorily imposed deadline. *Id.*

On May 26, 2000 – after the intervenors had filed their cases-in-chief, midway through the proceeding and weeks after the Postal Service had filed its 1999 Cost and Revenue Analysis – the Commission issued an order requesting that the Postal Service (i) prepare a basic update to the test year forecasts used in the proceeding; (ii) present this information in testimony by Postal Service witnesses and (iii) to incorporate this information as it believed necessary to more accurately forecast test year results. Order No. 1294. A revised procedural schedule followed

pursuant to which the intervenors conducted written and oral cross examination of the Postal Service witnesses presenting this data. Ruling No. R 2000-1/71. In addition, the parties supplemented their respective cases-in-chief to account for the FY 99 data. *Id.*

A. The FY 99 Data Cannot Be Supported by the Record
and Use of Such Data Would Impinge Upon AAP's Due Process Rights

AAP recognizes the difficulty of the Commission's task in this case – attempting to incorporate more recent data while preserving the parties' due process rights. Although AAP agrees that use of more recent data is generally preferable and should be encouraged, it believes that provision of adequate time to understand and challenge such data is equally important. After thoroughly examining the FY 99 cost data updates provided by the Postal Service and conducting discovery on the Postal Service witnesses who presented the FY 99 data in this case, AAP believes that the FY 99 cost data cannot be incorporated into any decision of the Commission without severely impinging upon the parties' due process rights.

Fundamental fairness in any rate-making proceeding requires that a party be given the opportunity to know what evidence is offered and a chance to rebut such evidence. *United States v. Florida E. Coast Ry. Co.*, 410 U.S. 224, 237 (1973). This requirement contemplates that parties will also have the opportunity to fully analyze, challenge and test such evidence. *See e.g., Ohio Bell Telephone Co. v. Public Utilities Commission*, 301 U.S. 292, 304 (1937). The D.C. Circuit has held that Commission must conform to the requirements of the Administrative Procedure Act (APA) and that under the APA, parties must be provided with a "thorough opportunity" during the hearing to test the methodology relied upon by the Commission and all figures and calculations used to attribute costs. In short, discovery and cross-examination must allow "full and true disclosure of the facts." *Mail Order Association of America v. U.S. Postal*

Service, 2 F.3d 408, 429-430 (D.C. Cir.1993). Thus, if the Commission chooses to base its decision upon FY 99 cost data, the parties must have first been accorded a meaningful opportunity to understand the computations and basis for such data. This requires that the parties be provided with sufficient time to conduct such an inquiry. *Id.*

Recognizing that the FY 99 data exhibited increases in unit costs for the BPM subclass, AAP engaged in discovery upon Postal Service witnesses designed to elicit the reason and basis for the increase. Tr. 35/16623-36. In particular, AAP asked Postal Service Witness Patelunas to “explain fully why BPM costs in the test year before rates have increased since the Postal Service’s original request and to explain each major cause of this increase.” Tr. 35/16626. In response, Witness Patelunas stated that he could not make the comparison “because I have had not had the time and it is not necessary for my testimony.” *Id.* Witness Patelunas provided an identical response to other interrogatories posed by AAP that were designed to provide an understanding regarding increases in specific costs segments affecting BPM. *Id.* at 16630-36. In short, AAP was unable to obtain any information from the Postal Service that explained the increases in unit costs for BPM during FY 99. In his supplemental testimony addressing the FY 99 data, AAP Witness Siwek addressed these unexplained anomalies and noted that because the Postal Service chose not to respond to the questions, the cost update information provided by the Postal Service in response to Order No. 1294 could not be thoroughly and adequately tested. Tr. 38/17092.

The unexplained cost increases for BPM should be compared with the even more dramatic increase costs for the Special Standard subclass for which AAP also sought an explanation. Tr. 38/16635. Again, Witness Patelunas referred AAP back to his response that he did not have time and that it was unnecessary for purposes of his testimony to explain the reasons

for such increases. *Id.* Only after the Commission raised the issue and required the Postal Service to produce a witness to explain the increase (See Order No. 1300) did the Postal Service provide a complete explanation.

Rather than offering an explanation of cost increases, the Postal Service acknowledged that the costs were erroneous. Postal Service witness Degen testified that “a portion of the anomalous cost increase was most likely due to some Standard A Regular tallies being recorded as Special Standard.” Tr. 45/20052, 20068. Thus, when pressed to explain the dramatic increase in costs for Special Standard mail, the Postal Service admitted that the FY 99 cost data with respect to the subclass were in error.

The error found with respect to Special Standard mail is sufficient in itself to cast doubt on the reliability of other FY 99 cost data, particularly with respect to the BPM subclass. AAP has raised similar questions regarding the reliability of the FY 99 data for the BPM subclass, but has been unable to obtain any explanation of the anomalous nature of the cost increases. The infirmities with the Special Standard data were disclosed only after the Postal Service was ordered by the Commission to conduct a searching inquiry of the causes for the cost increase. In contrast, the Postal Service was unwilling to provide AAP with any information that could be used to assess the reliability of the FY 1999 cost updates.

Ostensibly, the failure of the Postal Service to provide this information was due to the lack of time remaining in the proceeding to conduct such an analysis. That admission, in itself, strongly suggests that the Postal Service is unable or unwilling to vouch for the reliability or accuracy of the FY 1999 cost data. This may explain, to a large degree, why the Postal Service has chosen not to rely upon the FY 99 data for purposes of either altering its case-in-chief or adjusting its proposed rates for BPM or any other class of mail. Tr. 46/20926.

As shown by Witness Siwek, there are other problems associated with the use of the FY 99 data. The problems include a unilateral change by the Postal Service in the manner it projects postal wage levels. Specifically, the Postal Service cost updates change the formula for projecting wage increases from the Employment Cost Index for Wages and Salaries for Private Industry, less one percent ("ECI minus 1"), to ECI minus zero. Tr. 38/17093. In addition, witness Siwek found that certain "PESSA" costs contained in the FY 1999 data (plant, equipment, servicewide and selected administrative costs) were improperly categorized as volume variable costs. Tr. 38/17095. Given the obvious problems associated with full incorporation of the FY 99 data, the FY 99 data cannot be relied upon for purposes of establishing rates for the BPM subclass. Certainly, AAP and other parties are entitled to far more opportunity to delve into and understand this data before the Commission could rely upon it to recommend rates.

B. Any Use of FY 99 Data Would Require Lowering the Institutional Cost Markup and the Contingency

1. Use of FY 99 Data Supports a Still Lower Markup for BPM

As explained above, under criterion 2 of the ratemaking criteria described in 36 U.S.C. § 3622(b) of the Postal Reorganization Act, the value of the mail matter to both the sender and recipient must be considered in recommending rates. This is accomplished by examining the own-price elasticity of demand for that mail service. Tr. 38/17100. In its original filing, the Postal Service proposed an own-price elasticity for BPM of -0.392 . As part of its FY 1999 cost update, Postal Service Witness Thress explained that since the filing of the Postal Service's original case, certain underlying growth rates had changed. These rates are based on Commerce Department data used by the Postal Service to project explanatory variables and in the Postal

Service's forecasting model. USPS-ST-46 at 6. Witness Thress noted that as a result of these changes, certain elasticities had also changed. *Id.* AAP requested that Witness Thress provide the new elasticities for BPM based on the new data referred to in his testimony. Tr. 38/16842. In response, Witness Thress stated that the own-price elasticity for BPM had fallen to -0.280 . Witness Siwek addressed this issue in his supplemental testimony and has shown that based on the recalculated own-price elasticity for BPM, the relative value of the subclass has increased, and a lower markup for the BPM subclass is justified. Tr. 38/17102. Accordingly, if any use is made of FY 99 data, the revised own-price elasticity of BPM must also be taken into account, and the cost coverage applied to BPM must be still further reduced.

2. FY 99 Data Supports A Reduced Contingency

AAP Witness Siwek's supplemental testimony also demonstrates that if the FY 99 cost data is relied upon by the Commission, it must reduce the contingency requested by the Postal Service to account for the reduction in forecast risk that existed at the time the case was originally filed. Tr. 38/17096-17100. As noted by Witness Siwek, in its original filing the Postal Service needed to predict costs and revenues in a test year three years away. Now, as result of the updated cost information filed by the Postal Service, it need only look two years in the future. Tr. 38/17098. Thus, the need for additional funds to offset forecast risks has declined. *Id.* Accordingly, the Commission should reduce the contingency.

The Direct Marketing Association ("DMA") has offered similar testimony and also urged that the contingency be reduced based not only on the reduction in risk associated with use of the FY 99 data, but also on other factors. AAP supports DMA's testimony and urges the Commission to reduce in the contingency based on the reasons set forth by DMA witness Buc. *See* Tr. 37/17183-17203 and Tr. 22/9528-58.

C. Rates for BPM as Proposed by AAP
Should Not Be Affected by the FY 1999 Data

Witness Siwek's supplemental testimony shows that even if the Commission were to rely upon the Postal Service's FY 99 cost updates, the rate structure and levels proposed in his testimony on behalf of AAP need not be changed. Tr. 38/ 17103. The reconciliation of his rate design and rate levels to account for FY 99 cost data is set forth in Attachment 1 to his testimony and shows that even with full consideration of the FY 99 data the Commission can adopt the proposals for BPM set forth in Witness Siwek's direct testimony.² *Id.* at 17106.

CONCLUSION

AAP submits that the record in this proceeding fully supports the rate design proposals and rates for the BPM subclass set forth in Witness Siwek's testimony on behalf of AAP.

Tr. 30/14590-91. In summary, AAP recommends the following:

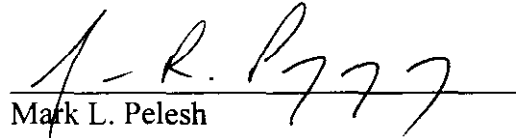
- (1) In recognition of the fact that books now compose a majority of the mail sent as BPM, the Commission should lower the institutional cost coverage for the BPM subclass to 105%;
- (2) The Commission should find that the Postal Service has overstated costs for BPM, as evidenced by costs allocations and distribution for the subclass;
- (3) Recognizing the significant flaws in the underlying BPM Mail Characteristics Study conducted by Christensen Associates for the Postal Service to support the institution of

² In response to Presiding Officer's Information Request No. 20, witness Crum also produced a restated Attachment I, Table 3 to his testimony showing that if FY 1999 cost data is taken into account, the total estimated Test Year DBMC cost savings would increase from .385 to .456. *See* Tr. 46/21118; LR-I-470; Tr. 39/17480-81. Accordingly, if the FY 1999 data is considered by the Commission, the cost savings for BPM mail entered at the DBMC would support a discount greater than proposed by witness Siwek.

drop-ship discounts, as well as the fact that the majority of mail sent as BPM would not make use of the DDU or DSCF discounts, the Commission should recommend that drop-ship discounts for BPM be limited to the DBMC level at the present time and that the passthrough for DBMC mail be increased to the level proposed by Witness Siwek.

(4) The Commission should not base its decision on FY 99 data. Nonetheless, if the Commission chooses to rely upon such data, it must further reduce cost coverage for BPM based on revised own-price elasticity data for BPM and the contingency should be reduced far below the level requested by the Postal Service.

Respectfully submitted,



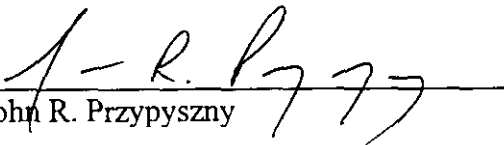
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Date: September 13, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document, by First-Class Mail,
upon the participants in this proceeding.


John R. Przypyszny

Date: September 13, 2000